



Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
82.7	91	10%

**MARKET DATA**

No. of Shares	707.1 Cr
Market Cap	58,423 Cr
52-week High / Low	101/70
BSE Code	539437
NSE Code	IDFCFIRSTB

**Why IDFC First Bank Ltd.?**

- ✓ **Strong Growth Opportunities**
- ✓ **RoA improvement levers visible**
- ✓ **Healthy deposits franchise with healthy CASA Ratio**
- ✓ **Asset quality to remain stable**

**About the Company**

The erstwhile IDFC Bank started its operation in Oct'15 as a bank after its demerger from IDFC Ltd. In its efforts to diversify the portfolio from infrastructure, IDFC Bank announced merger with a NBFC - Capital First in 2018, paving way for a new entity IDFC First Bank (IDFCFB)m. Currently, the bank operates out of 944 branches and 1164 ATMs across the country. The Bank has launched and scaled up several products across all segments, like retail, commercial and wholesale banking, rural products as well as fee-based products.

**Investment Rationale**

- A. Setting the stage for next leg of growth:** While IDFCFB has been able to deliver on most metrics based on Guidance 1.0, the bank is readying to deliver robust balance sheet growth of ~20% over the next 5 years. IDFCFB will look to further strengthen its deposit franchise, growing it at ~25% CAGR over FY24-29E. Similarly, the bank is targeting a CAGR growth of ~20% over the same period. Over the next 5 years, the bank will look at maintaining its robust asset quality aiming to maintain GNPA at <1.5% and NNPA at <0.4%. With the bank's track record and execution capability we believe IDFCFB would enable successful implementation of its Guidance 2.0, driving the next leg of growth for the bank.
- B. Moderating Opex a key RoA improvement enabler:** With investments in network expansion and the franchise, IDFCFB has seen elevated Opex ratios hovering around 72-4-74% over the last 5 years. Currently, investments towards the liability franchise and the credit card segment along with tech remain major drags on the C-I Ratio. The bank expects to continue its investments in technology and branches. However, the incremental branches required to garner deposits will be lesser. The management expects C-I Ratio to improve from H2FY25 onwards with Q4FY25E C-I ratio at sub-70% levels. The improvement to ~65% levels would be visible over the medium term.
- C. RoA improvement to be gradual:** IDFCFB has been able to maintain its margins at ~6.4% in FY24 and expects NIMs to remain stable supported by (i) repayment of high-cost borrowings, (ii) lower deposit re-pricing and (iii) a shift in portfolio mix towards retail portfolio. We expect NIMs to remain largely steady at ~6.4% over FY25-26E. Fee income growth is likely to remain healthy over the medium term. Asset quality is likely to remain healthy thereby keeping credit costs under control, thereby supporting RoA improvement. Improving cost ratios are the key lever for a meaningful improvement in RoA. With the bank targeting to lower the C-I Ratio to ~65% over the medium term, we could expect RoA to improve ~1.3% by FY26E. As a part of its Guidance 2.0, IDFCFB targets to improve its RoA to 1.9-2.0% and RoA to 17-18%.
- D. Recommendation:** We recommend a BUY rating on the stock with a TP of Rs 91/share, implying an upside of 10% from the CMP.

**Financial Summary**

Y/E	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
Mar								
FY23	12,635	4,932	2,437	3.7	36.9	2.2	1.1	0.9
FY24	16,451	6,237	2,957	4.2	43.8	1.9	1.1	0.6
FY25E	20,196	8,141	3,533	4.7	50.4	1.6	1.1	0.5
FY26E	25,148	11,099	5,173	6.9	57.1	1.4	1.3	0.5

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Sr. No	Name	Designation	E-mail
1	Neeraj Chadawar	Head of Research	<a href="mailto:neeraj.chadawar@axissecurities.in">neeraj.chadawar@axissecurities.in</a>
2	Preeyam Tolia	Research Analyst	<a href="mailto:preeyam.tolia@axissecurities.in">preeyam.tolia@axissecurities.in</a>
3	Omkar Tanksale	Research Analyst	<a href="mailto:omkar.tanksale@axissecurities.in">omkar.tanksale@axissecurities.in</a>
4	Uttamkumar Srimal	Research Analyst	<a href="mailto:uttamkumar.srimal@axissecurities.in">uttamkumar.srimal@axissecurities.in</a>
5	Ankush Mahajan	Research Analyst	<a href="mailto:ankush.mahajan@axissecurities.in">ankush.mahajan@axissecurities.in</a>
6	Dnyanada Vaidya	Research Analyst	<a href="mailto:dnyanada.vaidya@axissecurities.in">dnyanada.vaidya@axissecurities.in</a>
7	Aditya Welekar	Research Analyst	<a href="mailto:aditya.welekar@axissecurities.in">aditya.welekar@axissecurities.in</a>
8	Sani Vishe	Research Analyst	<a href="mailto:sani.vishe@axissecurities.in">sani.vishe@axissecurities.in</a>
9	Akshay Mokashe	Research Analyst	<a href="mailto:akshay.mokashe@axissecurities.in">akshay.mokashe@axissecurities.in</a>
10	Eesha Shah	Research Analyst	<a href="mailto:eesha.shah@axissecurities.in">eesha.shah@axissecurities.in</a>
11	Shridhar Kallani	Research Associate	<a href="mailto:shridhar.kallani@axissecurities.in">shridhar.kallani@axissecurities.in</a>
12	Shikha Doshi	Research Associate	<a href="mailto:shikha.doshi@axissecurities.in">shikha.doshi@axissecurities.in</a>
13	Pranav Nawale	Research Associate	<a href="mailto:pranav.nawale@axissecurities.in">pranav.nawale@axissecurities.in</a>
14	Suhanee Shome	Research Associate	<a href="mailto:suhanee.shome@axissecurities.in">suhanee.shome@axissecurities.in</a>
15	Shivani More	Research Associate	<a href="mailto:shivani.more@axissecurities.in">shivani.more@axissecurities.in</a>
16	Darsh Solanki	Research Associate	<a href="mailto:darsh.Solanki@axissecurities.in">darsh.Solanki@axissecurities.in</a>

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